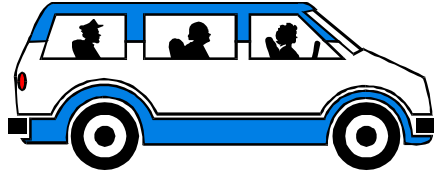


AUTO LEASING



A mini-lesson for:

secondary school teachers
adult and community educators
students and consumers

This mini-lesson includes learning objectives, background information, discussion questions, activities, checklists and sources of additional information.

OBJECTIVES

Learners will:

- ◆ define leasing terms
- ◆ discuss advantages and disadvantages of leasing
- ◆ review the steps in leasing an automobile
- ◆ list and describe possible end-of-lease costs

The Leasing Question

Leasing became popular when businesses wanted to operate automobile fleets while avoiding the high cost of ownership and maintenance. When individual leasing developed, consumers were faced with a new market question: to lease or not to lease.

Automobile leasing is not a simple matter. Cars lose value or depreciate over time. When you lease a car for two years, you are paying for two years of depreciation in monthly payments plus interest. At the end of the lease, the automobile can be either sold to you or someone else for its value at that point. There is no ownership, you simply pay for the use of the automobile. The manufacturer's warranty covers most repairs but all maintenance costs and insurance are your responsibility.

The new regulation M from the Federal Reserve Board, effective January 1, 1998, requires disclosure by leasing companies of specific information and provides consumers with a description in writing of the lease's financial details. A model disclosure form is available. The stated purpose of the new Regulation M is to allow consumers to compare one lease with another for the same vehicle and to compare leasing a vehicle with buying it on credit. However, the disclosure requirements do not apply to lease transactions over \$25,000.

See our Web Site on Consumer Guide to Vehicle Leasing at
<http://www.dfi.state.in.us/conscredit/leasing.htm>

See Interactive Auto Calculator: Should I lease or purchase? at
<http://www.calcbuilder.com/cgi-bin/calcs/AUT3.cgi>

Leasing Terms

- ◆ **Lessee.** The consumer.
- ◆ **Lessor.** The company that owns the automobile.
- ◆ **Gross capitalized cost.** The price of the car for leasing purposes.
- ◆ **Capitalized cost reduction.** Amount of cash down payment, trade-in or rebate.
- ◆ **Residual Value.** The automobile's value at the end of the lease. Also known as guaranteed future value or lease-end value, it is often expressed as a percentage of the Manufacturers Suggested Retail Price (MSRP). The higher the residual value, the less depreciation you pay. The residual value may be a negotiable figure. To determine it, many dealers consult a publication called Automotive Leasing Guide, a useful tool for predicting future value.
- ◆ **Rent Charge.** An amount paid by the lessee that may include interest, overhead and profit.
- ◆ **Money Factor.** This figure, also known as the lease rate or monthly lease fee, is the interest rate built into all leases. It is leasing's version of the annual percentage rate of interest (APR) that is charged to people who buy on credit. Leasing companies do not usually disclose the money factor except when competing with other lessors.

Advantages of Leasing

- ◆ The monthly payment is lower than when buying a car. In some cases there is no down payment at all.
- ◆ Leasing puts the driver in a new car every two or three years. For some consumers, this is an important lifestyle consideration. Leasing also allows consumers to drive a more expensive vehicle than they can afford to buy.
- ◆ Leasing is easier since negotiating over the price is downplayed.
- ◆ Vehicles are subject to wear as they age. A lease allows consumers to side-step the issue. By the time the car needs expensive repairs, the lease will have ended.
- ◆ There is no hassle with a trade-in at the end of the lease.
- ◆ Current tax law considers many of the expenses of a lease car used for business to be tax deductible.

Disadvantages of Leasing

- ◆ When the lease ends, you have built up no equity in a vehicle. You have nothing to trade in on a new car, so you will probably lease again.
- ◆ If a lease runs longer than the vehicle's warranty, the lessee may have to pay for repairs that would have been covered.
- ◆ In most cases, leasing is more expensive than buying on credit.
- ◆ Maintenance requirements for leased vehicles are strict if the lessee hopes to avoid end-of-lease charges. A lessee should honor the manufacturer's recommended maintenance schedules and should have written receipts to prove that service was performed as required.
- ◆ Early termination of a lease may result in substantial charges to the lessee.

Steps in Automobile Leasing

Know the important questions to ask before you lease a car. There are major differences between buying and leasing. However, the first steps in leasing are the same as those in buying a car.

1. Collect information.

- ◆ select the model you are interested in and record the identifying data
- ◆ at the dealership, negotiate a fair price for the car and get a price commitment on your trade-in
- ◆ ask the salesperson to have the agreement written up as a lease

A short-term lease, up to 24 months, means larger payments and more money spent for depreciation. A longer lease, up to 48 months, should have smaller payments, but may be less flexible. Experts recommend a lease length that coincides with the length of the vehicle's warranty.

2. Negotiate the gross capitalized cost.

Try to negotiate a gross capitalized cost somewhere between the MSRP and the dealer invoice price. The lower the cap cost, the better deal for the consumer. If the gross capitalized cost is too high, tell the salesperson to cut items that increase the total cost. If the salesperson claims that capitalized cost is a fixed figure and can't be lowered, find another salesperson. Use the required disclosure form as a worksheet. On the form, compare the agreed upon value of the vehicle with the gross capitalized cost to see what charges have been added.

The law of supply and demand affects leasing as well as buying. If car sales are breaking records and the model you want to lease is a hot seller, expect to pay more. If the opposite is true and car sales are sluggish, bargain for a capitalized cost that represents a discount from the MSRP.

3. Fill in disclosure form.

Ask the salesperson to fill in the rest of the disclosure form, front and back, and give you the figures. Be sure that you check the box near the middle of the front page in order to get a step-by-step calculation of the monthly payment. At this time, lessors are not required to provide data on the money factor used to calculate the equivalent of the annual percentage rate of interest (APR) charged on vehicle loans.

4. Review the disclosure form.

Review the disclosure form and ask for explanations of any items you do not understand. Make sure that the trade-in allowance reduces the gross capitalized cost. In the past, a common leasing complaint was that consumers were not given credit for the trade-in. To prevent this, scrutinize the line on the disclosure form titled capitalized cost reduction. The total amount should include rebates, cash down payment and trade-in allowance. If you have paid a deposit, make sure you get credit for it.

5. Take the lease home and study it.

Once the lease is written, instead of signing on the spot, ask for an exact photocopy to take home and study. Given the importance of the document, the obscurity of its terms, and its legally binding status, a quick decision is not smart. If possible, avoid giving a deposit at this stage, since there is no deal until you sign the lease.

6. Compare the figures.

At home, compare the figures on the lease with those on your disclosure form. Look for unexplained changes. Use your calculator to check the math. Verify the accuracy of the most important figures: lease term, gross capitalized cost, capitalized cost reduction, residual value and rent charge.

End-of-Lease Costs and Other Considerations

When you buy an automobile, the hard bargaining and stressful confrontations often come at the beginning of the deal. In contrast, leasing is quite simple at the onset but potentially complicated at the end. When you turn the car in, problems may develop. They can be avoided by reading the fine print, sentence by sentence, before you sign. Some of the important items to look for are:

- ◆ **Gap Insurance.** If the lease car is totaled or stolen, your auto insurance may cover replacement but not the payments still required. Gap insurance covers the difference between the replacement value of the car and what is still owed on the lease. It is expensive to purchase separately. Ask if it is included without charge to the lessee.
- ◆ **Excess Wear and Tear.** At the end of the lease, if the car has visible damage, the consumer will probably be charged to repair it. To protect yourself, get a copy of the written guidelines or checklist issued by leasing companies. Of course, the longer the lease, the more likelihood of an excess wear charge. Some leasing companies have made the marketing decision to downplay minor dings, scratches and upholstery stains. If no damages are assessed, the security deposit will be mailed to you shortly after the automobile is returned.
- ◆ **Excess Mileage.** The yearly mileage limit should exceed your normal driving needs. If it does not, find out the charge for additional miles. Try to negotiate a more

favorable rate for added miles at the outset.

- ◆ **Disposition Fees.** This end-of-lease charge covers costs associated with picking up and processing the returned car are for sale. Some leasing companies do not charge a disposition fee or an acquisition fee, but instead include the costs in the monthly payment. Also, some dealers will absorb the fee if the customer is planning to sign another lease.
- ◆ **Purchase Option.** Many leases include the chance to buy the automobile at the end of the lease. The disclosure sheet should tell you if the purchase price is pre-determined or negotiated at the end of the contract. In cases where the residual value has been boosted to a very high level, do not pay more than market price for a car. When examining the contract, see if there is a purchase option fee.
- ◆ **Early Termination and Default .** You may incur significant penalties if you break the lease. For example, you may be required to pay 100% of all the remaining payments. A detailed explanation of early termination fees is required by the disclosure form. Although some leases can be broken with less penalty than others, early terminations are a big cause of disputes.

See Department of Financial Institution's Web Site for additional information on Auto Leasing: http://www.dfi.state.in.us/conscredit/Clauto_creditleasing.htm

Truth in Leasing	Auto Leasing	Consumer Guide to Vehicle Leasing
Important End of Lease Information	<u>Is Leasing Right for You?</u>	Look Before You Lease
	Lease or Buy?	

Web Site for Consumer Lease Statutes: <http://www4.law.cornell.edu/uscode/15/1667.html>

Model Open-end or Finance Vehicle Lease Disclosures

Federal Consumer Leasing Act Disclosures

Date _____

Lessor(s) _____ Lessee(s) _____

Amount Due at Lease Signing or Delivery

(Itemized below)*

\$ _____

Monthly Payments

Your first monthly payment of \$ _____ is due on _____, followed by _____ payments of \$ _____ due on the _____ of each month. The total of your monthly payments is \$ _____

Other Charges (not part of your monthly payment)

Disposition fee (If you do not purchase the vehicle)

\$ _____

Total \$ _____

Total of Payments

(The amount you will have paid by the end of the lease)

\$ _____

You will owe an additional amount if the actual value of the vehicle is less than the residual value.

*Itemization of Amount Due at Lease Signing or Delivery

Amount Due at Lease Signing or Delivery:

Capitalized cost reduction \$ _____
First monthly payment _____
Refundable security deposit _____
Title fees _____
Registration fees _____
Total \$ _____

How the Amount Due at Lease Signing or Delivery will be paid:

Net trade-in allowance \$ _____
Rebates and non-cash credits _____
Amount to be paid in cash _____
Total \$ _____

Your monthly payment is determined as shown below:

Gross capitalized cost. The agreed upon value of the vehicle (\$ _____) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance)..... \$ _____
If you want an itemization of this amount, please check this box.

Capitalized cost reduction. The amount of any net trade-in allowance, rebate, non-cash credit, or cash you pay that reduces the gross capitalized cost..... - _____

Adjusted capitalized cost. The amount used in calculating your base monthly payment..... = _____

Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment ... - _____

Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term..... = _____

Rent charge. The amount charged in addition to the depreciation and any amortized amounts..... + _____

Total base monthly payments. The depreciation and any amortized amounts plus the rent charge..... = _____

Lease payments. The number of payments in your lease + _____

Base monthly payment..... = _____

Monthly sales/use tax..... + _____

Total monthly payment..... = \$ _____

Rent and other charges. The total amount of rent and other charges imposed in connection with your lease..... \$ _____

Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be

Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of _____ miles per year at the rate of _____ per mile].

Purchase Option at End of Lease Term. [You have an option to purchase the vehicle at the end of the lease term for \$ _____ [and a purchase option fee of \$ _____].] [You do not have an option to purchase the vehicle at the end of the lease term.]

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

Model Open-end or Finance Vehicle Lease Disclosures

Page 2 of 2

[The following provisions are the nonsegregated disclosures required under Regulation M.]

Description of Leased Property				
Year	Make	Model	Body Style	Vehicle ID #

Official Fees and Taxes. The total amount you will pay for official and license fees, registration, title, and taxes over the term of your lease, whether included with your monthly payments or assessed otherwise: \$_____.

Insurance. The following types and amounts of insurance will be acquired in connection with this lease:

_____ We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$_____.

_____ You (lessee) agree to provide insurance coverage in the amount and types indicated above.

End of Term Liability. (a) The residual value (\$_____) of the vehicle is based on a reasonable, good faith estimate of the value of the vehicle at the end of the lease term. If the actual value of the vehicle at that time is greater than the residual value, you will have no further liability under this lease, except for other charges already incurred [and are entitled to a credit or refund of any surplus.] If the actual value of the vehicle is less than the residual value, you will be liable for any difference up to \$_____ (3 times the monthly payment). For any difference in excess of that amount, you will be liable only if:

1. Excessive use or damage [as described in paragraph _____] [representing more than normal wear and use] resulted in an unusually low value at the end of the term.

2. The matter is not otherwise resolved and we win a lawsuit against you seeking a higher payment.

3. You voluntarily agree with us after the end of the lease term to make a higher payment.

Should we bring a lawsuit against you, we must prove that our original estimate of the value of the leased property at the end of the lease was reasonable and was made in good faith. For example, we might prove that the actual value was less than the original estimated value, although the original estimate was reasonable, because of an unanticipated decline in value for that type of vehicle. We must also pay your attorney's fees.

(b) If you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

Standard Wear and Use. The following standards are applicable for determining unreasonable or excessive wear and use of the leased vehicle:

Maintenance.

(You are responsible for the following maintenance and servicing of the leased vehicle:

[We are responsible for the following maintenance and servicing of the leased vehicle:

Warranties. The leased vehicle is subject to the following express warranties:

Early Termination and Default. (a) You may terminate this lease before the end of the lease term under the following conditions:

The charge for such early termination is:

(b) We may terminate this lease before the end of the lease term under the following conditions:

Upon such termination we shall be entitled to the following charge(s) for:

(c) To the extent these charges take into account the value of the vehicle at termination, if you disagree with the value we assign to the vehicle, you may obtain at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

Security interest. We reserve a security interest of the following type in the property listed below to secure performance of your obligation under this lease:

Late Payments. The charge for late payments is _____.

Option to Purchase Leased Property Prior to the End of the Lease. [You have an option to purchase the leased vehicle prior to the end of the term. The price will be \$_____/ [the method of determining the price]. [You do not have an option to purchase the leased vehicle.]

DISCUSSION QUESTIONS AND TOPICS

1. What factors should you consider when deciding to buy or lease?
2. Do you know anyone who has leased a car? If yes, have they had unexpected charges?
3. When leasing, what are the important factors to consider?
4. Under what circumstances would leasing be more advantageous than owning an automobile?

ACTIVITIES

1. Answer the questions and discuss why you would choose to lease or buy.
2. Using the Checklist - - To Lease or to Buy, answer the questions and discuss why you would choose to lease or buy.
3. All leases specify who is responsible for servicing and repairing the automobile. It is possible to arrange a maintenance contract which requires the company to perform all or part of the scheduled servicing and all repairs not included in the warranty. Investigate the charges for different dealers for the same model car. Compare these costs with the costs of doing your own servicing.
4. Using the Checklist for Comparing Leases examine the costs of leasing from different sources in your area.
5. Examine the costs of leasing from different sources in your area.
6. Using a computer software program such as Expert Lease, compare the costs of leasing and buying a car.
7. Using figures from an actual lease, fill in the top portion of the disclosure form. Fill in the figures to explain items included in the monthly payment.

Give students a copy of our **Brochures** on Auto Leasing.

CHECKLIST FOR COMPARING LEASES

It pays to shop for a lease just as if you were buying a vehicle. Costs vary significantly from one leasing company to another. To make a valid comparison, the vehicles should have the same options.

Vehicle Make _____
Model & Year _____

Manufacturer's Suggested
Retail Price _____
Length of Lease _____

	Lease 1	Lease 2
Gross Capitalized Cost		
Capital Cost Reduction		
Down payment, Trade-in, Rebate		
Residual Value		
Initial Costs - Due at Signing		
Refundable security deposit		
First Monthly Payment		
License and Registration		
Taxes, current month		
Continuing Costs		
Monthly Lease Payment		
Number of payments		
Total monthly payments		
End-of-Lease Costs		
Gap insurance		
Mileage allowance		
Excess wear and tear		
Excess mileage fee		
Disposition fees		
Required maintenance		
Other fees		
Other Considerations		
Purchase option price		
Late payment charges		
Early termination fee		

Questions

Excess Wear and Tear: How is excess wear determined? Are there written guidelines?

Manufacturer's Suggested Maintenance: Is the cost of regular service appointments included in the lease as an expense to the lessee? Does the lease require maintenance to be performed at an authorized dealership?

Gap Insurance: Is it included without cost to the lessee?

TO LEASE OR TO BUY

Deciding whether to lease or to buy a vehicle is not a simple matter. Your answers to the following questions may help you decide which is better for you.

1. **Do you drive less than 12,000 to 15,000 miles per year?**

YES_____ NO_____

If you exceed pre stated mileage limits, you may be charged a per-mile fee with a lease.

2. **Would you like a lower monthly payment?**

YES_____ NO_____

Purchasing usually requires higher monthly payments than leasing, and high prices make purchasing difficult for some buyers.

3. **Do you want to pay a small or no down payment?**

YES_____ NO_____

Purchasing usually requires a significant down payment, while leasing usually does not.

4. **Do you want a more expensive vehicle than you can afford to buy?**

YES_____ NO_____

Leasing allows you to "rent" a more expensive model because the payments per month are usually less.

5. **Is selling your vehicle or dealing with a trade-in a hassle for you?**

YES_____ NO_____

Leasing matters are usually more hassle-free than selling or trading in a vehicle you own.

6. **Do you prefer to have a new vehicle every two or three years?**

YES_____ NO_____

Leasing may allow you to have a new vehicle more often, but you will always have payments with a lease and you will not build equity in the vehicle.

7. **Do your driving habits result in heavy wear and tear on the vehicle?**

YES_____ NO_____

You may be charged for excess wear and tear with a lease. Vehicle life will be shortened by hard use whether you lease or buy.

8. **Is ownership important to you?**

YES_____ NO_____

Many people like to own and maintain a vehicle, drive it for years, and be free from monthly payments when the car loan is paid in full.

Which would you choose, to lease or to buy? Why?

SOURCES OF ADDITIONAL INFORMATION

A **Guide for Educators**, a new addition to the Federal Reserve Board's web site: <http://www.federalreserve.gov/pubs/leasing>, is a slide presentation with explanatory notes for school and community educators.

Consumer's Auto Leasing Guide, Remar Sutton, Credit Union National Association. A 30 - page booklet explaining what a lease is and all important facets and terms of a lease. No phone or fax orders. Include stock#20669 in request. Finance Department, CUNA & Affiliates , P.O Box 431, Madison, WI 537021-0431. 1995. \$8.50 prepaid.

Dodging The Traps In a Car Lease. (April 1996). Kiplinger's Personal Finance Magazine , pp. 89-93.

Reality Checklist. Consumer Task Force for Automotive Issues, Inc., P.O. Box 7648, Atlanta, GA 30357-0648. © 1994.

Lease your Car For Less, Richard L. Kaye, TeleTravel Network, P.O. Box 606, Northbrook, IL 60062-0606. \$6.95. © 1995

Look Before You Lease, Michael Kranitz, Buy-Rite Publishing, Damonmill Square, Suite 5A4 Concord, MA 01742. Telephone: 508-371-0015. \$9.95. © 1997

What You Should Know About Auto Leasing. (June 1995). Consumer's Research, pp. 27-29.

Software

Keys to Vehicle Leasing: A Consumer Resource, is a computer program that can be downloaded from the Federal Reserve Board's web site: <http://www.federalreserve.gov/pubs/leasing>.

Expert Lease and **Expert Lease Pro** Software. Chart Software, PO Box 145, Gilman, IL 60938. 800-418-8450. \$49.95 and \$99.95(Expert Lease Pro). System Requirements: IBM compatible PC with DOS 3.1 or higher. 640K memory, color monitor, hard disk with 4.0 MB free(Pro version). 1995.

Internet

See Interactive Auto Calculator: **Should I lease or purchase?** at <http://www.calcbuilder.com/cgi-bin/calcs/AUT3.cgi>

Department Financial Institutions Sites on Auto Leasing at http://www.dfi.state.in.us/conscredit/Clauto_creditleasing.htm

Automobile Leasing at <http://www.mindspring.com/~ahearn/lease/lease.html>

Edmund's New Car Prices and Reviews at <http://www.edmund.com>

Intellichoice at <http://www.intellichoice.com>

LeaseSource at <http://www.leasesource.com>

LeaseWizard Lease and Loan Analysis at <http://www.residualvalue.com> - Software for Windows.

Keys to Auto Leasing at <http://federalreserve.gov/pubs/leasing>

Kelley Blue Book at <http://www.kbb.com>

Articles

At The End Of The Road: What to expect when your auto lease is about to expire by Paul Ingrassia. Smart Money, pp. 141-142, (May 1995). This article discusses the terms and conditions of car leases and what they can mean to the consumer in additional costs at the end of the lease.

How To Get A Great Deal by Ed Henry. Kiplinger's Personal Finance Magazine, pp. 84-86, (December, 1996). Focuses on financial details for leasing or purchasing a new vehicle with examples of dealer invoice price, holdback, cap cost, and residual value. Lease Worksheet supplement.

What You Should Know About Auto Leasing by Jack Norris, Todd Stone and Terrence O'Laughlin. Consumers Research Magazine , pp. 27-29, (June 1995). This article examines tactics used by dealerships to confuse consumers about the lease contract. It also gives tips to the consumer to negotiate a better lease.

Books

How To Save Big Money When You Lease A Car by Michael Flinn. Perigee Books, (1990). \$11.00. This comprehensive, well-written book explains all aspects in the lease process. It gives information on the shopping games, moves, attitudes and tips to negotiate a fair lease.

Lease Your Car For Less by Richard L. Kaye. TeleTravel Network, Inc., (1995). \$6.95. This book helps to understand exactly what a lease is, how lease costs are calculated and what terms can be negotiated to the consumer's advantage.

Look Before You Lease by Michael S. Kranitz. Buy-Rite Publishing, Damonmill Square, Suite 5A4, Concord, MA 01742 (1997). \$9.95. In addition to the standard information, this book explains how to convert rent charges to a money factor and also explains the different ways of charging state sales tax. Contains a chapter on federal leasing legislation. One of the best sources of leasing information.

Pamphlets

Look Before You Lease, A Consumer Guide to Vehicle Leasing,* and *Truth in Leasing. (IDFI) Brochures on auto leasing free from the Indiana Department of Financial Institutions. Free.

Keys to Vehicle Leasing -A Consumer Guide. A booklet describing leasing plans that are covered by the Consumer Leasing Act. It also explains the costs and obligations that may be negotiated. First 100 copies are free from the Federal Reserve Board's Publications Service, Mail Stop 127, Washington DC 20551 (202-452-3244). It is also available on the Board's web site: <http://www.federalreserve.gov/pubs/leasing>.

***A Consumer Guide To Vehicle Leasing.* (FTC) (1994).** A booklet describing leasing plans that are covered by the Consumer Leasing Act. It also explains the costs and obligations that may be negotiated. Free, 16 pages.

Automotive Lease Guide: Residual Percentage Guide. 1328 De La Vina Street, Santa Barbara, CA 93101. Annual subscription \$48.00. Telephone 805-965-1403.

***Federal Consumer Leasing Act Disclosures.* (FRB) (1996)** Lessors are required to provide this 2-sided sheet to customers. Also available online from NICE:
<http://www.emich.edu/public/coe/nice>.

SOURCES

FRB Board of Governors of the Federal Reserve System Publication Services, MS-138
Washington, D.C. 20551 Phone: 202-452-3244

FTC Federal Trade Commission Bureau of Consumer Protection Pennsylvania Ave & 6th St.,
NW Washington, D.C. 20580 Phone: 202-326-2222

IDFI Indiana Department of Financial Institutions, 402 West Washington Street Room W-066,
Indianapolis, IN 46104 <http://www.dfi.state.in.us/cc.htm>.

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Know the important questions to ask before you lease a car. There are major differences between buying and leasing. However, the first steps in leasing are the same as those in buying a car.

Collect information. Select the model you are interested in and record the identifying data at the dealership. Negotiate a fair price for the car and get a price commitment on your trade-in. Ask the salesperson to have the agreement written up as a lease.

Negotiate the gross capitalized cost. Try to negotiate a gross capitalized cost somewhere between the MSRP and the dealer invoice price. The lower the cap cost, the better deal for the consumer. If the gross capitalized cost is too high, tell the salesperson to cut items that increase the total cost. If the salesperson claims that capitalized cost is a fixed figure and can't be lowered, find another salesperson. Use the required disclosure form as a worksheet. On the form, compare the agreed upon value of the vehicle with the gross capitalized cost to see what charges have been added.

The law of supply and demand affects leasing as well as buying. If car sales are breaking records and the model you want to lease is a hot seller, expect to pay more. If the opposite is true and car sales are sluggish, bargain for a capitalized cost that represents a discount from the MSRP.

Filled in disclosure form. Ask the salesperson to fill in the disclosure form-front and back and give you the figures. Be sure that you check the box near the middle of the front page in order to get a step-by-step calculation of the monthly payment. At this time, lessors are not required to provide data on the money factor used to calculate the equivalent of the annual percentage rate of interest (APR) charged on vehicle loans.

Review the disclosure form. Ask for explanations of any items you do not understand. Make sure that the trade-in allowance reduces the gross capitalized cost. In the past, a common leasing complaint was that consumers were not given credit for the trade-in. To prevent this, scrutinize the line on the disclosure form titled capitalized cost reduction. The total amount should include rebates, cash down payment, and trade-in allowance. If you have paid a deposit, make sure you get credit for it.

Take the lease home and study it. Once the lease is written, instead of signing on the spot, ask for an exact photocopy to take home and study. Given the importance of the document, the obscurity of its terms, and its legally binding status, a quick decision is not smart. If possible, avoid giving a deposit at this stage since there is no deal until you sign the lease.

Compare the figures. At home, compare the figures on the lease with those on your disclosure form. Look for unexplained changes. Use your calculator to check the math. Verify the accuracy of the most important figures: lease term, gross capitalized cost, capitalized cost reduction, residual value, and rent charge.

A short-term lease, up to 24 months, means larger payments and more money spent for depreciation. A longer lease, up to 48 months, should have smaller payments, but may be less flexible. Experts recommend a lease length that coincides with the length of the vehicle's warranty.

END-OF-LEASE COSTS AND OTHER CONSIDERATIONS

When you buy an automobile, the hard bargaining and stressful confrontations often come at the beginning of the deal. In contrast, leasing is quite simple at the onset but potentially complicated at the end. When you turn the car in, problems may develop. They can be avoided by reading the fine print, sentence by sentence, before you sign. Some of the important items to look for are:

Gap Insurance. If the lease car is totaled or stolen, your auto insurance may cover replacement but not the payments still required. Gap insurance covers the difference between the replacement value of the car and what is still owed on the lease. It is expensive to purchase separately. Ask if it is included without charge to the lessee.

Excess Wear and Tear. At the end of the lease, if the car has visible damage, the consumer will probably be charged to repair it. To protect yourself, get a copy of the written guidelines or checklist issued by leasing companies. Of course, the longer the lease, the more likelihood of an excess wear charge. Some leasing companies have made the marketing decision to downplay minor dings, scratches, and upholstery stains. If no damages are assessed, the security deposit will be mailed to you shortly after the automobile is returned.

Excess Mileage. The yearly mileage limit should exceed your normal driving needs. If it does not, find out the charge for additional miles. Try to negotiate a more favorable rate for added miles at the outset.

Disposition Fees. This end-of-lease charge covers costs for picking up and processing the returned car for sale. Some leasing companies do not charge a disposition fee or an acquisition fee, but instead include the costs in the monthly payment. Also, some dealers will absorb the fee if the customer is planning to sign another lease.

Purchase Option. Many leases include the chance to buy the automobile at the end of the lease. The disclosure sheet should tell you if the purchase price is pre-determined or negotiated at the end of the contract. In cases where the residual value has been boosted to a very high level, do not pay more than market price for a car. When examining the contract, see if there is a purchase option fee.

Early Termination and Default. You may incur significant penalties if you break the lease. For example, you may be required to pay 100% of all the remaining payments. A detailed

explanation of early termination fees is required by the disclosure form. Although some leases can be broken with less penalty than others, early terminations are a big cause of disputes.



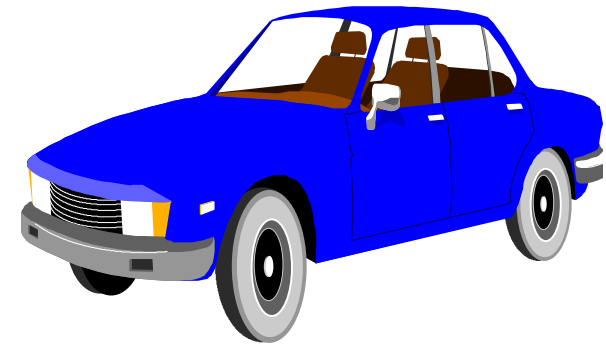
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Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
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AUTO LEASING



DEPARTMENT OF FINANCIAL INSTITUTIONS

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Getting rid of a leased car doesn't have to be expensive, if you know what to watch out for. This information will help you negotiate the best deal at the **end** of your lease. It will also help you decide whether to keep the car and get out of the leasing cycle.

Every lease contract is different, it is important to read your contract and understand your obligations and rights before it's time to end your lease.

IMPORTANT END OF LEASE TERMS

Excess Wear and Tear Charges: Most leases make you responsible for any damage to the vehicle. Some contracts list what is considered over normal wear and tear. Others give the lessor the right to charge for any damages that they determine are unreasonable. ***Of course, if you buy the car, you won't have to pay these charges.***

Excess Mileage Charges: Most leases have a limit on the number of miles you can drive. If you exceed the limit, you will be charged per mile, when you turn in the car. ***If you buy the car, you won't have to pay these charges.***

Disposition and Purchase Option Fees: Most leases require you to pay a fee to cover the cost of selling the car. This is called a "disposition fee." ***If you decide to buy the vehicle, the disposition fee will be eliminated, but you may be charged a "purchase option fee" to prepare the paperwork.***

Purchase Option: Most leases give you the option to buy the vehicle at the end of the lease for a price you agreed to when you signed the contract. This price is either listed in the contract or the contract specifies a method of determining how much they will charge you for the vehicle. ***Note: If you are thinking of buying the vehicle, check your contract as many leases require you to notify the lessor one month in advance.***

KEY STEPS TO TAKE TO END YOUR LEASE

Step 1: Collect Information

Two months before the lease ends, read your contract and gather information on end of lease costs and the value of your vehicle. Here's what you need to know:

Excess Wear and Tear Charges...

Get an estimate. Always ask your dealer to provide you with a written estimate of any wear and tear charges.

Shop for lower costs. If the dealer indicates that there will be wear and tear charges, get written repair estimates from other repair shops for the listed problems.

Who does the repairs? If your contract requires that the dealer perform the repairs, ask if you can get a second estimate from another repairer before the work is started.

Excess Mileage Charges...

Estimate your final mileage. Check the car's current odometer reading and add the additional mileage you expect to drive before turning the car in.

Calculate your charges. Determine how many miles you are allowed in your contract and multiply any "excess" miles by the per mile charge.

Disposition Charges and Other End of Lease Fees...

Review your contract. Determine if there is a disposition fee or other charges when you turn in the car.

Step 2: Add up the Costs to End the Lease

The bottom line. Add up the following (using the lowest estimated excess wear and tear charges you received):

Excess wear and tear	\$
Excess mileage	\$
Disposition charge	\$
Other charges	\$
TOTAL due at lease end	\$

Don't forget to take into consideration what it will cost you to buy or lease another car. You will need a down payment or up front lease expenses.

Step 3: Determine the Cost to Buy the Car

Determine if you can buy. Review your contract and find out if you can buy the car. Also check to see if a purchase option fee will be charged.

Check purchase notification requirements. Many contracts require that you notify the dealer in advance (typically one month) if you want to buy the car.

Determine purchase price. Look for the listed price in contract. If the contract describes a method to determine the purchase price, ask the dealer for the current value.

Determine the car's retail value. Find out how much the car should cost in the open market by checking the NADA Official Used Car Guide, often called the "blue book," and found in most libraries and credit unions. The Guide's "retail value" is what you would expect to pay for the car.

Add up all the charges: Don't forget to include the purchase option fee when determining the cost to buy the car.

Retail value	\$
Purchase option fee	\$
Taxes	\$
Other charges	\$
TOTAL cost to buy	\$

BUYING THE CAR

- **Negotiate...** If the retail value of the car is less than what the lessor wants to charge you, don't hesitate to make a fair offer. It will save them the expense of transferring the car to another owner.
- **Compare financing...** If you decide you want to keep the car, be sure to compare the dealer's financing with your credit union or other financial institutions.

- **Get full credit...** Be sure to get full credit for your vehicle if you trade it in for another lease or purchase. This amount should be listed in your new contract.

TURNING IN THE CAR

Generally, if the car is worth less than the purchase price in the contract and the dealer won't sell it for less, **turn in the car**.

- **Add up your costs...** Review the information you collected on how much the lessor will charge for repairs and compare that with the independent estimate you received.
- **Repair the car...** If the independent estimate is substantially less than the lessors estimate, repair the car before turning it in. Be sure that the repairs meet the requirements of your contract and respond to the problems listed on the lessors estimate.
- **Get it in writing...** If you turn in a repaired car or one you consider meets the terms of the contract, be sure that you obtain a written confirmation of the condition of your vehicle.
- **Get a report...** If your contract specifies that the dealer has the right to repair the vehicle, request a Vehicle Condition Report with a detailed estimate of the repairs and costs.
- **Make a record...** Document the condition of the car before you turn it in by taking pictures or videos of both the interior and exterior of the car. Make sure the dealer knows that you have this information.



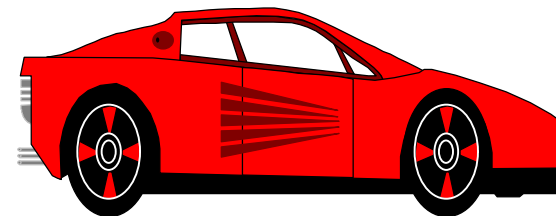
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 High Rate Mortgages
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 How to Avoid Bankruptcy
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IMPORTANT END OF LEASE INFORMATION



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 1-800-382-4880
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The **Indiana Uniform Consumer Credit Code** (IC 24-4.5) contains regulations covering consumer leases. A consumer lease is for a personal, family, or household purpose, the amount of the lease does not exceed \$50,000, and is for a term exceeding 4 months.

The obligation of a lessee upon expiration of a consumer lease may not exceed three (3) times the average payment allocable to a monthly period under the lease. This limitation does not apply to charges for damages to the leased property or for other default.

A lessor may not take a security interest in property of the lessee to secure the debt arising from the lease.

TO LEASE OR TO BUY?

That's the choice you face when mulling over makes and models and deciding which car deal best meets your needs. Leasing a car is not the same as buying one. When you buy, you own the car. When you lease, you pay to drive someone else's vehicle. Although leasing can involve lower monthly payments than a loan, at lease end, you will have no ownership or equity in the car.

The number of new car leases is skyrocketing. Before you decide whether to lease or buy, the Federal Trade Commission reminds you: don't be dazzled by so-called deals. Ask questions, nail down the details, read the fine print, and shop around.

SHOPPING TIPS

First, decide whether you want to buy with cash, buy on credit, or lease. When making your decision, be sure to take into account such expenses as the cost of insurance, maintenance, and special fees.

To help you compare the cost of buying on credit with the cost of open end leasing, you must be told the total amount you are responsible for under the lease, the value of the property at the beginning of the lease, and the difference between the two. For example, a three-year open end car lease might show:

+ Estimated value of car at end of lease	4,000
Amount you are responsible for under lease	12,100
- Value of car at beginning of lease	10,700
Difference	\$1,400

You could compare this "difference" of \$1,400 with the finance charge you would pay if you bought the car on credit.

If you decide to lease, shop around for the best price and terms. Your overall costs will be lower if you bargain for the lowest lease price, just as you would to purchase the car for cash or credit. If you don't bargain, you won't get the lowest price, which affects other lease costs. Compare the costs and advantages of open end and closed end leases, and look at such options as whether the leasing company will pay for repairs and maintenance.

If you're thinking of leasing, here are some shopping tips:

Shop as if you're buying a car. Negotiate all the lease terms, including the price of the vehicle. Lowering the lease price will help reduce your monthly payments. Get all the terms in writing.

Learn the language of leasing: In a **closed-end lease**, you return the car at the end of the lease and "walk away," but you're still usually responsible for certain end-of-lease charges, such as excess mileage, wear and tear, and disposition. In an **open-end lease**, you pay the difference between the value stated in your contract and the lessor's appraised value at the end of the lease.

Lease inception fees are payments you must make when the lease starts. Fees may include a down payment, security deposit, acquisition fee, first month's payment, taxes, and title fees. Ask for a list of all charges due at lease inception. You may be able to negotiate some or all of the terms.

The **capitalized cost** is the price of the car for leasing purposes plus taxes and extra charges like service contracts and registration fees.

The **capitalized cost reduction** is similar to a down payment. If you're trading in a car, make sure the dealer

applies the trade-in value to the price your lease is based on. The **trade-in credit** may reduce your down payment or monthly payments.

Ask whether **extra charges will be assessed for excessive mileage, wear and tear, disposition, and early termination.** Find out the amount of these charges. Most leases allow you to drive 12,000 to 15,000 a year; if you put on more miles, expect a charge of 10 to 25 cents for each additional mile. You may think the ding in the door is normal wear and tear; to the lessor it may be significant damage. Check out penalties for an early return; expect to pay a substantial charge if you give the car up before the end of your lease.

Make sure the manufacturer's **warranty** covers the entire lease term and the number of miles you're likely to drive.

Consider "gap insurance" to cover the difference -- sometimes thousands of dollars -- between what you owe on the lease and what the car is worth if it's stolen and not recovered or totaled in an accident.

Before you sign the deal, take a copy of the contract home and review it carefully away from any dealer pressure. Be alert for any charges that were not disclosed at the dealership, like conveyance, disposition, and preparation fees.

LEASE COST INFORMATION

Federal law requires lessors to provide lease cost information before you sign the lease. If the dealer declines, consider shopping elsewhere. Information you should know:

- ✓ Amount due at lease signing
- ✓ Monthly payments
- ✓ Other charges [not a part of your monthly payments]
- ✓ Total of payments
- ✓ How your monthly payment is determined
- ✓ Excessive wear and use
- ✓ Early Termination requirements
- ✓ Purchase option at end of lease term
- ✓ Maintenance responsibilities
- ✓ Warranties
- ✓ Late and default charges
- ✓ Insurance

36 monthly payments of \$225	\$8,100
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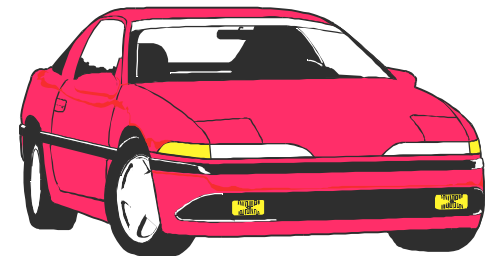
- Answers to Credit Problems
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- Guide to Vehicle Leasing
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LOOK BEFORE YOU LEASE



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KEYS TO VEHICLE LEASING

Under the federal Consumer Leasing Act, you, the consumer, have a right to information about the costs and terms of a vehicle lease. This information will help you compare lease offers and negotiate a lease that best fits your needs, budget, and driving patterns.

This consumer guide is for a closed-end lease, the most common type of vehicle lease. With a closed-end lease, you may return the vehicle at the end of the lease term, pay any end-of-lease costs, and walk away.

Leasing is different from buying. Here's how . . .

OWNERSHIP

LEASING	BUYING
You do not own the vehicle. You get to use it but must return it at the end of the lease unless you choose to buy it.	You own the vehicle and get to keep it at the end of the financing term.

UP-FRONT COSTS

LEASING	BUYING
Up-front costs may include the first month's payment, a refundable security deposit, a capitalized cost reduction (like a down payment), taxes, registration, and other fees, and other charges.	Up-front costs include the cash price or a down payment, taxes, registration and other fees, and other charges. Monthly payments.

BUYING

LEASING	BUYING
Monthly lease payments are usually lower than monthly loan payments because you are paying only for the vehicle's depreciation during the lease term, plus rent charges (like interest), taxes, and fees.	Monthly loan payments are usually higher than monthly lease payments because you are paying for the entire purchase price of the vehicle, plus interest and other finance charges, taxes, and fees.

EARLY TERMINATION

LEASING	BUYING
You are responsible for any early termination charges if	You are responsible for any pay-off amount if

you end the lease early.	you end the loan early
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VEHICLE RETURN

LEASING	BUYING
You may return the vehicle at lease end, pay any end-of-lease costs, and "walk away."	You may have to sell or trade the vehicle when you decide you want a different vehicle.

FUTURE VALUE

LEASING	BUYING
The lessor has the risk of the future market value of the vehicle.	You have the risk of the vehicle's market value when you trade or sell it.

MILEAGE

LEASING	BUYING
Most leases limit the number of miles you may drive (often 12,000-15,000 per year). You can negotiate a higher mileage limit and pay a higher monthly payment. You will likely have to pay charges for exceeding those limits if you return the vehicle.	You may drive as many miles as you want, but higher mileage will lower the vehicle's trade-in or resale value.

CONSIDER BEGINNING, MIDDLE, AND END-OF-LEASE COSTS

At the beginning of the lease, you may have to pay your first monthly payment; a refundable security deposit or your last monthly payment; other fees for licenses, registration, and title; a capitalized cost reduction (like a down payment); an acquisition fee (also called a processing or assignment fee); freight or destination charges; and state or local taxes.

During the lease, you will have to pay your monthly payment; any additional taxes not included in the payment such as sales, use, and personal property taxes; insurance premiums; ongoing maintenance costs; and any fees for late payment. You'll also have to pay for safety and emissions inspections and any traffic tickets. If you end your lease early, you may have to pay substantial early termination charges.

At the end of the lease, if you don't buy the vehicle, you may have to pay a disposition fee and charges for excess miles and excess wear.

YOU CAN COMPARE DIFFERENT LEASE OFFERS AND NEGOTIATE SOME TERMS.

Consider . . .

- ✓ the agreed-upon value of the vehicle--a lower value can reduce your monthly payment
- ✓ up-front payments, including the capitalized cost reduction
- ✓ the length of the lease
- ✓ the monthly lease payment
- ✓ any end-of-lease fees and charges
- ✓ the mileage allowed and per-mile charges for excess miles
- ✓ the option to purchase either at lease end or earlier
- ✓ whether your lease includes "gap" coverage, which protects you if the vehicle is stolen or totaled in an accident.
- ✓ ask for alternatives to advertised specials and other lease offerings.

KNOW YOUR RIGHTS AND RESPONSIBILITIES

When you lease a vehicle, you have the right to:

- ✓ use it for an agreed-upon number of months and miles
- ✓ turn it in at lease end, pay any end-of-lease fees and charges, and "walk away"
- ✓ buy the vehicle if you have a purchase option
- ✓ take advantage of any warranties, recalls, or other services that apply to the vehicle.

You may be responsible for...

Excess mileage charges when you return the vehicle. Your lease agreement will tell you how many miles you can drive before you must pay for extra miles and how much the per-mile charge will be.

Excess wear charges when you return the vehicle. The standards for excess wear, such as for body damage or worn tires, are in your lease agreement.

Substantial payments if you end the lease early. The earlier you end the lease, the greater these charges are likely to be.



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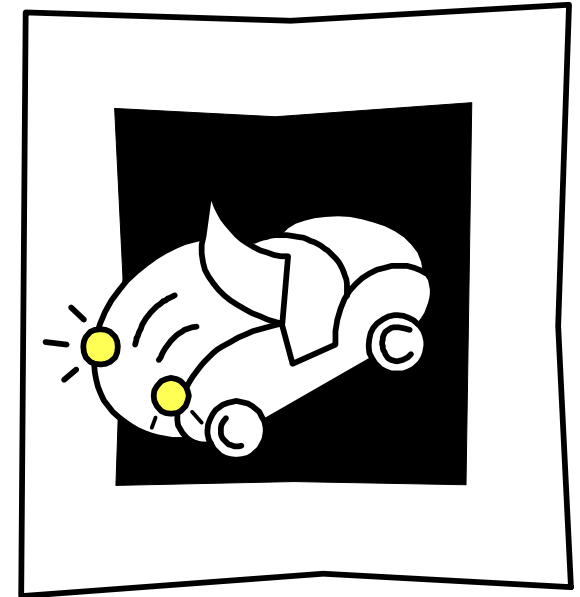
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GUIDE TO VEHICLE LEASING



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